

Village of Union City, Michigan

FINANCIAL STATEMENTS

**For The Fiscal Year Ended
March 31, 2008**



REHMANN ROBSON

Certified Public Accountants

VILLAGE OF UNION CITY, MICHIGAN

For the Fiscal Year Ended March 31, 2008

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INDEPENDENT AUDITORS' REPORT

September 23, 2008

Village Council
Village of Union City
Union City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **VILLAGE OF UNION CITY, MICHIGAN**, as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Union City, Michigan, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2008, on our consideration of the Village of Union City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION and ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village of Union City's annual Financial Report presents the Management Discussion and Analysis ("MDA") of the Village's financial activities during the fiscal year ended March 31, 2008. The analysis focuses on the Village's financial performance as a whole. It is intended to be read as part of the Village's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Village of Union City exceeded liabilities at March 31, 2008 by \$6,859,082. Of this amount \$2,412,349 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The net assets of the Village increased by \$499,705 during the year. Of this amount the net assets of governmental activities increased by \$41,582 and the net assets of business-type activities increased by \$458,123.

USING THIS REPORT

The annual report consists of a series of financial statements including other requirements as follows:

1. MDA introduces the basic financial statements and provides an analytical overview of the Village's financial activities.
2. Government-wide Financial Statement ("GFS") consists of a Statement of Net Assets ("SNA") and a Statement of Activities ("SOA"). These provide information about the activities of the Village as a whole and represent an overall view of the Village's finances.
3. Fund Financial Statements ("FFS") tell how governmental services were financed in the short term as well as what remains for future spending. FFS also report the Village's operations in more detail than the GFS by providing information about the most significant funds.
4. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
5. Required supplementary information, other than MDA, provides information about the required budgetary comparison information.

REPORTING THE VILLAGE AS A WHOLE

The SNA, the SOA and the GFS report information about the Village as a whole using accounting methods similar to those used by private sector companies. The SNA includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the SOA regardless of when cash is received or paid.

One of the most important questions asked about the Village's finances is: Is the Village as a whole better or worse off as a result of the year's activities? The SNA and the SOA report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the Village's net assets, which are the difference between assets and liabilities, as one way to measure the Village's financial health, or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the Village's property tax base and the condition of the Village's infrastructure are also important in making this

MANAGEMENT'S DISCUSSION AND ANALYSIS

decision.

In the SNA and the SOA, we have divided the Village into two kinds of activities:

1. Governmental Activities - Most of the Village's basic services are reported here, such as police, fire, streets, parks, general government and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business-Type Activities - This activity includes the water, electric and sanitary sewer systems, which are financed primarily by user charges.

REPORTING THE VILLAGE'S MOST SIGNIFICANT FUNDS

The FFS provide detailed information about individual, significant funds, not the Village as a whole. Some funds are required to be established by state law and by bond covenants. The Village may establish other funds to account for and manage revenue and expenditures that are related to specific projects (i.e. capital improvements); grants or other purposes (i.e. tax increment financing).

The Village has two fund types:

1. Governmental Funds - The Governmental Funds account of most of the Village's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street; Local Street and Revolving Loan Fund. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary Funds - Proprietary Funds account for the Village's enterprise funds. These funds report services for which the Village charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the SNA and the SOA. The major difference between the proprietary fund and the business-type activities included in the government-wide statement is the detail and additional information, such as cash flows, provided in the proprietary fund statements.

The enterprise fund includes the Electric, Water, and Sewer Funds, considered to be major funds of the Village. The Village is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a SNA, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as useful indicator of financial position. The following analysis shows the Village's total net assets at March 31, 2008 as compared to the March 31, 2007 fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$773,605	\$644,545	\$3,062,104	\$2,433,283	\$3,835,709	\$3,077,828
Capital assets, net	704,022	775,986	5,219,344	5,429,714	5,923,366	6,205,700
Total assets	1,477,627	1,420,531	8,281,448	7,867,247	9,759,075	9,283,528
Current liabilities	27,621	22,878	229,556	204,853	257,177	227,731
Long term liabilities	67,390	56,619	2,575,426	2,639,801	2,642,816	2,696,420
Total liabilities	95,011	79,497	2,804,982	2,844,654	2,899,993	2,924,151
Net assets:						
Invested in capital assets, net of related debt	704,022	775,986	2,733,344	2,868,714	3,437,366	3,644,700
Restricted	516,380	431,964	492,987	436,614	1,009,367	868,578
Unrestricted	162,214	133,084	2,250,135	1,713,015	2,412,349	1,846,099
Total Net Assets	\$1,382,616	\$1,341,034	\$5,476,466	\$5,018,343	\$6,859,082	\$6,359,377

MANAGEMENT'S DISCUSSION AND ANALYSIS

The largest portion of the Village's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$2,412,349, which is an increase from the last fiscal year of approximately \$566,250.

The following analysis provides the changes in the net assets for the Village's governmental and business-type activities:

	Governmental Activities		Business-type Activities		Total	Total
	2008	2007	2008	2007	2008	2007
Revenues:						
Charges for Services	\$92,331	\$113,932	\$2,648,168	\$2,515,093	\$2,740,499	\$2,629,025
Operating Grants & Contributions	<u>14,440</u>	<u>11,812</u>	<u>15,060</u>	<u>11,888</u>	<u>29,500</u>	<u>23,700</u>
Total Revenues	106,771	125,744	2,663,228	2,526,981	2,769,999	2,652,725
Expenses:						
General Government	169,805	241,671			169,805	241,671
Public Works	268,210	237,726			268,210	237,726
Public Safety	343,876	396,150			343,876	396,150
Electric			1,525,070	1,695,555	1,525,070	1,695,555
Sewer			443,526	475,337	443,526	475,337
Water			<u>236,509</u>	<u>258,703</u>	<u>236,509</u>	<u>258,703</u>
Total Expenses	781,891	875,547	2,205,105	2,429,595	2,986,996	3,305,142
Net revenue (expense)	(675,120)	(749,803)	458,123	97,386	(216,997)	(652,417)
General Revenues:						
Property Taxes	325,185	316,556			325,185	316,556
State Shared Revenue	331,899	336,928			331,899	336,928
Unrestricted Investment Earnings	2,549	2,039			2,549	2,039
Grants and contributions	<u>57,069</u>	<u>42,972</u>			<u>57,069</u>	<u>42,972</u>
Total General Revenues	716,702	698,495			716,702	698,495
Transfers – Internal activities						
Increase(Decrease) in Net Assets	41,582	(51,308)	458,123	97,386	499,705	46,078
Net Assets 3-31-07	<u>1,341,034</u>	<u>1,392,342</u>	<u>5,018,343</u>	<u>4,920,957</u>	<u>6,359,377</u>	<u>6,313,299</u>
Net Assets 3-31-08	<u>\$1,382,616</u>	<u>\$1,341,034</u>	<u>\$5,476,466</u>	<u>\$5,018,343</u>	<u>\$6,859,082</u>	<u>\$6,359,377</u>

Governmental activities increased net assets by approximately \$41,500 primarily due to general fund revenues exceeding ongoing and flat expenses, and also due to a slight reduction in street projects during the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business type net assets increased by approximately \$458,100, primarily due to an increase in sewer and water rates and a decrease in expenses of approximately \$221,000. The sewer fund incurred depreciation expense of approximately \$158,000 which is included in operating expenses. All funds have strong working capital amounts at March 31, 2008. Working capital is the excess of current assets over current liabilities.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the Village of Union City completed its year, its governmental funds reported a total fund balance of \$745,984, which is \$129,854 more than the \$616,130 total fund balances at March 31, 2007.

- The General Fund, the operating fund for the Village, ended FY07-08 with a \$229,604 balance compared to the prior year ending fund balance of \$184,166, due primarily to ongoing revenues exceeding expenditures. State shared revenues have decreased each year over the past four fiscal years.
- Major Street Fund Balance increased by \$10,143 due to a reduction of projects in 2008.
- Local Street Fund Balance increased by \$74,192. The Village levies 3.9897 mills for local road projects, and spent approximately \$66,000 in the current fiscal year. The fund balance at March 31, 2008 is approximately \$329,200.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

Net assets of the business – type activities increased by approximately \$458,100 during the year. The reason for the increase has been noted in the Government-Wide financial analysis for Business-type funds

The Electric, Sewer and Water Funds, which account for the operation and maintenance of the Village's electric, water and sewer systems, ended FY07-08 with a \$5,476,466 net asset balance compared to prior year ending net asset balance of \$5,018,343. Operating results include depreciation expense of \$210,370, which is a non-cash expense of the three funds.

BUDGETARY HIGHLIGHTS

During the year ended March 31, 2008, the Village did not amend the budget of the general fund or other budgetary funds since revenue and expenditures tracked favorably during the year with the original enacted budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Village's investment in capital assets, including land, buildings and improvements, equipment, electric systems, water systems, sewer systems, roadways and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$704,022 (net of accumulated depreciation) at March 31, 2008. Capital assets for business-type activities totaled \$5,219,344 (net of accumulated depreciation) at March 31, 2008. See the notes to the financial statements for more information about the Village's capital assets.

LONG-TERM DEBT

At year end the Village had \$2,486,000 in outstanding revenue bonds. The Village reduced its debt through scheduled installment payments of \$75,000 during the year ended March 31, 2008. Additional information on the Village's long-term debt can be found in Note II-G in the accompanying financial statements.

ECONOMIC FACTORS

Elected and appointed officials must consider many factors in the preparation and the adoption of the Village's annual budget. One important factor affecting the Village's budget is the State of Michigan's fiscal health because a significant source of revenue for the Village's General Fund is state shared revenue, a portion of which is subject to state legislative approval. Because of the State's recent and continuing budget problems the Village has seen a major reduction in state shared revenues.

By comparison, the Village received state shared revenues in the amount of approximately \$214,000 in fiscal year ended March 31, 2005, \$209,000 in fiscal year ended March 31, 2006, \$206,000 in fiscal year ended March 31, 2007, and \$200,007 in the fiscal year ended March 31, 2008, and it is projected that the Village will receive a lesser amount for the fiscal 2009 as compared to fiscal 2008.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to present citizens, taxpayers, customers, investors, creditors and other interested parties with a general overview of the Village's finances and operating activities. If you have any questions or require additional information please contact the Village of Union City, 208 N. Broadway Street, Union City, MI 49094.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Village of Union City
Statement of Net Assets
March 31, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 800,528	\$ 1,354,427	\$ 2,154,955
Receivables, net	48,298	492,159	540,457
Internal balances	(87,533)	87,533	-
Inventory	12,312	161,644	173,956
Land investment	-	5,692	5,692
Investment in joint venture	-	960,649	960,649
Capital assets not being depreciated	16,402	117,696	134,098
Capital assets being depreciated, net	687,620	5,101,648	5,789,268
Total assets	1,477,627	8,281,448	9,759,075
Liabilities			
Accounts payable and accrued expenses	17,173	219,614	236,787
Accrued wages	10,448	9,942	20,390
Long-term liabilities:			
Due within one year	67,390	100,097	167,487
Due in more than one year	-	2,475,329	2,475,329
Total liabilities	95,011	2,804,982	2,899,993
Net assets			
Invested in capital assets, net of related debt	704,022	2,733,344	3,437,366
Restricted for special purposes	516,380	492,987	1,009,367
Unrestricted	162,214	2,250,135	2,412,349
Total net assets	\$ 1,382,616	\$ 5,476,466	\$ 6,859,082

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Activities
For the Year Ended March 31, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities:				
General government	\$ 169,805	\$ 28,622	\$ -	\$ (141,183)
Public works	268,210	62,895	14,440	(190,875)
Public safety	343,876	814	-	(343,062)
Total governmental activities	<u>781,891</u>	<u>92,331</u>	<u>14,440</u>	<u>(675,120)</u>
Business-type activities:				
Electric	1,525,070	1,912,662	11	387,603
Sewer	443,526	418,942	9,492	(15,092)
Water	236,509	316,564	5,557	85,612
Total business-type activities	<u>2,205,105</u>	<u>2,648,168</u>	<u>15,060</u>	<u>458,123</u>
 Total primary government	 <u>\$ 2,986,996</u>	 <u>\$ 2,740,499</u>	 <u>\$ 29,500</u>	 <u>\$ (216,997)</u>

continued...

Village of Union City
Statement of Activities (Concluded)
For the Year Ended March 31, 2008

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (675,120)	\$ 458,123	\$ (216,997)
General revenues:			
Property taxes	325,185	-	325,185
State shared revenue	331,899	-	331,899
Grants and contributions not restricted to particular programs	57,069	-	57,069
Unrestricted investment earnings	2,549	-	2,549
 Total general revenues	 716,702	 -	 716,702
 Change in net assets	 41,582	 458,123	 499,705
 Net assets, beginning of year	 1,341,034	 5,018,343	 6,359,377
 Net assets, end of year	 \$ 1,382,616	 \$ 5,476,466	 \$ 6,859,082

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**Village of Union City
Balance Sheet
Governmental Funds
March 31, 2008**

	Major funds			Nonmajor Fund	
	General	Major Streets	Local Streets	Revolving Loan	Total
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 134,809	\$ 100,071	\$ 282,711	\$ 3,473	\$ 521,064
Inventory	-	6,157	6,155	-	12,312
Due from other governments	25,548	16,437	6,313	-	48,298
Due from other funds	91,938	35,651	36,193	28,149	191,931
<u>TOTAL ASSETS</u>	\$ 252,295	\$ 158,316	\$ 331,372	\$ 31,622	\$ 773,605
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 13,445	\$ 1,791	\$ 1,937	\$ -	\$ 17,173
Salaries payable	9,246	998	204	-	10,448
Total liabilities	22,691	2,789	2,141	-	27,621
Fund balances					
Unreserved - undesignated	229,604	155,527	329,231	-	714,362
Unreserved, reported in nonmajor special revenue fund	-	-	-	31,622	31,622
Total fund balances	229,604	155,527	329,231	31,622	745,984
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 252,295	\$ 158,316	\$ 331,372	\$ 31,622	\$ 773,605

The accompanying notes are an integral part of these financial statements.

Village of Union City
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
March 31, 2008

Fund balances - total governmental funds	\$ 745,984
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	1,947,355
Deduct: accumulated depreciation	(1,243,333)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: compensated absences	<u>(67,390)</u>
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Net assets of governmental activities:	<u><u>\$ 1,382,616</u></u>
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The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended March 31, 2008

	Major funds			Nonmajor Fund	
	General	Major Streets	Local Streets	Revolving Loan	Total
Revenue					
Taxes	\$ 236,391	\$ -	\$ 94,331	\$ -	\$ 330,722
Licenses and permits	412	-	-	-	412
Intergovernmental	202,831	93,288	35,780	-	331,899
Charges for services	28,210	-	-	-	28,210
Fines and forfeitures	814	-	-	-	814
Interest and rents	44,906	4,244	10,115	81	59,346
Other revenue	77,526	-	81	-	77,607
Total revenue	591,090	97,532	140,307	81	829,010
Expenditures					
General government	181,075	-	-	-	181,075
Public safety	314,085	-	-	-	314,085
Public works	50,492	87,389	66,115	-	203,996
Total expenditures	545,652	87,389	66,115	-	699,156
Revenue over (under) expenditures	45,438	10,143	74,192	81	129,854
Net change in fund balances	45,438	10,143	74,192	81	129,854
Fund balances, beginning of year	184,166	145,384	255,039	31,541	616,130
Fund balances, end of year	\$ 229,604	\$ 155,527	\$ 329,231	\$ 31,622	\$ 745,984

The accompanying notes are an integral part of these financial statements.

Village of Union City
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended March 31, 2008

Net change in fund balances - total governmental funds	\$ 129,854
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	20,004
Deduct: depreciation expense	(91,968)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on long-term receivables	(5,537)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences	(10,771)
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Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 0;">\$ 41,582</div>
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The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended March 31, 2008

	Original/ Amended Budget	Actual	Over (Under) Budget
Revenue			
Taxes:			
Property taxes - general	\$ 225,750	\$ 229,898	\$ 4,148
Assessments- sidewalks	6,361	6,493	132
Total taxes	232,111	236,391	4,280
Licenses and permits	600	412	(188)
Intergovernmental:			
State revenue sharing	200,000	202,831	2,831
Charges for services - fire	33,400	28,210	(5,190)
Fines and forfeitures	3,000	814	(2,186)
Interest and rents:			
Interest earned	1,500	2,549	1,049
Rental income	1,000	4,273	3,273
Equipment rentals	18,000	38,084	20,084
Total interest and rentals	20,500	44,906	24,406
Other revenue	9,152	77,526	68,374
Total revenue	498,763	591,090	92,327

continued...

Village of Union City
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended March 31, 2008

	Original/ Amended Budget	Actual	Over (Under) Budget
Expenditures			
General government:			
Administration	\$ 118,890	\$ 123,437	\$ 4,547
Treasurer	8,250	8,235	(15)
Village Council	7,200	6,300	(900)
Clerk	35,700	26,307	(9,393)
Nondepartmental	17,000	16,464	(536)
Other	1,000	332	(668)
Total general government	<u>188,040</u>	<u>181,075</u>	<u>(6,965)</u>
Public safety			
Police	305,416	264,258	(41,158)
Fire	66,800	49,827	(16,973)
Total public safety	<u>372,216</u>	<u>314,085</u>	<u>(58,131)</u>
Public works			
Streets	<u>31,200</u>	<u>50,492</u>	<u>19,292</u>
Total expenditures	<u>591,456</u>	<u>545,652</u>	<u>(45,804)</u>
Revenue over (under) expenditures	(92,693)	45,438	138,131
Other financing sources (uses)			
Transfers in	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>
Net change in fund balance	(72,693)	45,438	118,131
Fund balance, beginning of year	<u>184,166</u>	<u>184,166</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 111,473</u></u>	<u><u>\$ 229,604</u></u>	<u><u>\$ 118,131</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Budget and Actual
Major Streets Special Revenue Fund
For the Year Ended March 31, 2008

	Original/ Amended Budget	Actual	Over (Under) Budget
Revenue			
Intergovernmental	\$ 96,000	\$ 93,288	\$ (2,712)
Interest	2,500	4,244	1,744
Other	500	-	(500)
Total revenue	99,000	97,532	(1,468)
Expenditures			
Public works	155,550	87,389	(68,161)
Net change in fund balance	(56,550)	10,143	66,693
Fund balance, beginning of year	145,384	145,384	-
Fund balance, end of year	<u><u>\$ 88,834</u></u>	<u><u>\$ 155,527</u></u>	<u><u>\$ 66,693</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Budget and Actual
Local Streets Special Revenue Fund
For the Year Ended March 31, 2008

	Original/ Amended Budget	Actual	Over (Under) Budget
Revenue			
Property taxes	\$ 93,277	\$ 94,331	\$ 1,054
Intergovernmental	38,000	35,780	(2,220)
Interest	4,500	10,115	5,615
Other	250	81	(169)
Total revenue	136,027	140,307	4,280
Expenditures			
Public works	83,600	66,115	17,485
Net change in fund balance	52,427	74,192	21,765
Fund balance, beginning of year	255,039	255,039	-
Fund balance, end of year	<u><u>\$ 307,466</u></u>	<u><u>\$ 329,231</u></u>	<u><u>\$ 21,765</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Net Assets
Proprietary Funds
March 31, 2008

	Enterprise Funds - Business-type activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Assets					
Current assets:					
Cash and cash equivalents	\$ 573,691	\$ 165,932	\$ 121,817	\$ 861,440	\$ 279,464
Accounts receivable	186,446	50,021	34,657	271,124	-
Notes receivable	-	9,500	-	9,500	-
Due from other funds	127,497	24,393	26,964	178,854	-
Inventory	118,393	8,193	35,058	161,644	-
Total current assets	1,006,027	258,039	218,496	1,482,562	279,464
Non-current assets:					
Restricted cash and cash equivalents	-	309,500	183,487	492,987	-
Note receivable	-	211,535	-	211,535	-
Capital assets, net	341,441	4,111,104	766,799	5,219,344	-
Land investment	5,692	-	-	5,692	-
Investment in M.S.C.P.A.	960,649	-	-	960,649	-
Total non-current assets	1,307,782	4,632,139	950,286	6,890,207	-
Total assets	2,313,809	4,890,178	1,168,782	8,372,769	279,464
Liabilities					
Current liabilities:					
Accounts payable	115,737	7,867	4,193	127,797	-
Accrued wages	6,411	1,174	2,357	9,942	-
Due to other funds	74,652	10,369	6,300	91,321	279,464
Interest payable	-	9,579	1,724	11,303	-
Customer deposits	66,500	-	14,014	80,514	-
Compensated absences payable	15,000	5,049	5,048	25,097	-
Current portion of long-term debt	-	45,000	35,000	80,000	-
Total current liabilities	278,300	79,038	68,636	425,974	279,464
Long-term liabilities:					
Compensated absences payable	40,671	11,829	11,829	64,329	-
Revenue bonds payable	-	2,136,000	270,000	2,406,000	-
Total liabilities	318,971	2,226,867	350,465	2,896,303	279,464
Net assets					
Invested in capital assets, net of related deb	341,441	1,930,104	461,799	2,733,344	-
Restricted	-	309,500	183,487	492,987	-
Unrestricted	1,653,397	423,707	173,031	2,250,135	-
Total net assets	\$ 1,994,838	\$ 2,663,311	\$ 818,317	\$ 5,476,466	\$ -

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Revenue, Expenses,
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended March 31, 2008

	Enterprise Funds - Business-type Activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Operating revenue					
Charges for services	\$ 1,893,447	\$ 418,942	\$ 316,564	\$ 2,628,953	\$ -
Operating expenses					
Operations	1,506,521	186,371	183,714	1,876,606	-
Depreciation	18,549	157,911	33,910	210,370	-
Total operating expenses	1,525,070	344,282	217,624	2,086,976	-
Operating income	368,377	74,660	98,940	541,977	-
Nonoperating revenue (expense)					
Interest revenue	19,226	9,492	5,557	34,275	-
Interest expense	-	(99,244)	(18,885)	(118,129)	-
Total nonoperating revenue (expense)	19,226	(89,752)	(13,328)	(83,854)	-
Change in net assets	387,603	(15,092)	85,612	458,123	-
Net assets, beginning of year	1,607,235	2,678,403	732,705	5,018,343	-
Net assets, end of year	\$ 1,994,838	\$ 2,663,311	\$ 818,317	\$ 5,476,466	\$ -

The accompanying notes are an integral part of these financial statements.

Village of Union City
Statement of Cash Flows
Proprietary Funds
For the Year Ended March 31, 2008

	Enterprise Funds - Business-type Activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Cash flows from operating activities					
Cash received from customers	\$ 1,634,595	\$ 415,553	\$ 306,780	\$ 2,356,928	\$ -
Cash payments to suppliers for goods and services	(1,286,686)	(137,575)	(124,984)	(1,549,245)	-
Cash payments to employees for services	(203,299)	(53,641)	(63,996)	(320,936)	-
Receipts for interfund services provided	-	-	-	-	41,160
Net cash provided by operating activities	144,610	224,337	117,800	486,747	41,160
Cash flows capital and related financing activities					
Principal paid on bonds	-	(45,000)	(30,000)	(75,000)	-
Interest paid on bonds	-	(99,244)	(18,885)	(118,129)	-
Net cash used in capital and related financing activities	-	(144,244)	(48,885)	(193,129)	-
Cash flows from investing activities					
Interest received on investments	19,226	9,492	5,557	34,275	-
Net increase in cash and cash equivalents	163,836	89,585	74,472	327,893	41,160
Cash and cash equivalents, beginning of year	409,855	385,847	230,832	1,026,534	238,304
Cash and cash equivalents, end of year	\$ 573,691	\$ 475,432	\$ 305,304	\$ 1,354,427	\$ 279,464
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 573,691	\$ 165,932	\$ 121,817	\$ 861,440	\$ 279,464
Restricted cash equivalents	-	309,500	183,487	492,987	-
	\$ 573,691	\$ 475,432	\$ 305,304	\$ 1,354,427	\$ 279,464

continued...

Village of Union City
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended March 31, 2008

	Enterprise Funds - Business-type Activities				Governmental Activities
	Electric Fund	Sewer Fund	Water Fund	Totals	Internal Service
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	\$ 368,377	\$ 74,660	\$ 98,940	\$ 541,977	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	18,549	157,911	33,910	210,370	-
Changes in assets and liabilities:					
Accounts receivable	(261,430)	(3,389)	(10,656)	(275,475)	-
Inventory	7,605	(814)	(361)	6,430	-
Due from other funds	(16,712)	(7,349)	(7,822)	(31,883)	-
Accounts payable	17,895	805	(258)	18,442	-
Accrued liabilities	1,906	121	784	2,811	-
Due to other funds	-	-	-	-	41,160
Deposits payable	2,578	-	872	3,450	-
Compensated absences payable	5,842	2,392	2,391	10,625	-
Net cash provided by operating activities	\$ 144,610	\$ 224,337	\$ 117,800	\$ 486,747	\$ 41,160

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Union City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity

In accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 14, certain other governmental organizations may be considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14 for the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibilities and financial accountability.

In this regard, there are no other governmental organizations associated with the Village subject to the above criteria nor are there any other governmental organizations in existence.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* is used to account for the financial resources to be used for the expenditure of motor fuel taxes which are earmarked by law for major street and highway purposes.

The *local streets fund* is used to account for the financial resources to be used for the expenditure of motor fuel taxes which are earmarked by law for local street and highway purposes.

The government reports the following major proprietary funds:

The *electric fund* accounts for the activities of the government's electric generation and distribution system.

The *sewer fund* accounts for the activities of the government's sewage disposal and treatment system.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

The *water fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the government reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including trust or major capital projects. The *revolving loan fund* constitutes the sole nonmajor special revenue fund of the Village.

Internal service fund. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes the compensated absences fund of the Village.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewage function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and sewage enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventory

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory consists of expendable supplies held for consumption.

4. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted assets

Certain proceeds of the Enterprise Fund's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

6. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Vehicles	5-25
Equipment	3-10
Infrastructure	20
Systems and plant	20-50

7. *Compensated absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation, sick and personal days are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if the obligation is expected to be liquidated from expendable available financial resources.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

8. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The governmental funds are under formal budgetary control. Budgets shown in the financial statements were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those contained in the formal budget approved by the Village Board. Budgetary control is exercised at the functional level. Each budget amendment must have Council approval.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

B. Excess of expenditures over appropriations

Excess of expenditures over appropriations in the general and major special revenue funds are reported in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

These over expenditures were funded through the use of fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Following is a reconciliation of deposit and investment balances as of March 31, 2008:

Statement of Net Assets:

Cash and cash equivalents – Governmental activities	\$ 800,528
Cash and cash equivalents – Business-type activities	<u>1,354,427</u>
Total	<u>\$ 2,154,955</u>

Deposits and investments

Bank deposits:	
Checking/Savings accounts	\$ 1,990,301
Certificates of deposit (due within one year)	<u>164,654</u>
Total	<u>\$ 2,154,955</u>

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All of the Village's deposits with fixed maturity dates (certificates of deposit) were due within one year.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. At year end, the Village had no investments, and was therefore not exposed to credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$1,625,653 of the Village's bank balance of \$2,235,396 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year end, the Village had no investments, and was therefore not exposed to concentration of credit risk.

B. Receivables

Receivables in the governmental activities are 100 percent due from other governments. Business-type activities receivables are 55 percent of amounts due from customers and 45 percent note receivables.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended March 31, 2008 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 16,402	\$ -	\$ -	\$ 16,402
Capital assets, being depreciated:				
Buildings	135,200	-	-	135,200
Equipment	88,086	-	-	88,086
Vehicles	394,676	20,004	-	414,680
Infrastructure	1,292,987	-	-	1,292,987
Total capital assets being depreciated	1,910,949	20,004	-	1,930,953
Less accumulated depreciation for:				
Buildings	(47,865)	(3,905)	-	(51,770)
Equipment	(43,227)	(16,915)	-	(60,142)
Vehicles	(324,135)	(6,309)	-	(330,444)
Infrastructure	(736,138)	(64,839)	-	(800,977)
Total accumulated depreciation	(1,151,365)	(91,968)	-	(1,243,333)
Total capital assets being depreciated, net	759,584	(71,964)	-	687,620
Capital assets, net	\$ 775,986	\$ (71,964)	\$ -	\$ 704,022
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 117,696	\$ -	\$ -	\$ 117,696
Capital assets, being depreciated:				
Systems and plant	7,595,556	-	-	7,595,556
Vehicles	163,388	-	-	163,388
Total capital assets being depreciated	7,758,944	-	-	7,758,944
Less accumulated depreciation for:				
Systems, plant and vehicles	(2,446,926)	(210,370)	-	(2,657,296)
Total capital assets being depreciated, net	5,312,018	(210,370)	-	5,101,648
Capital assets, net	\$ 5,429,714	\$ (210,370)	\$ -	\$ 5,219,344

Depreciation expense was charged to functions/programs of the Village as follows:

Governmental activities:	
General government	\$ 2,065
Public safety	24,749
Public works, including infrastructure assets	65,154
Total depreciation expense, governmental activities	\$ 91,968
Business-type activities:	
Electric	\$ 18,549
Sewer	157,911
Water	33,910
Total depreciation expense, business-type activities	\$ 210,370

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

D. Payables

Payables in the governmental activities are 100 percent vendors. Business-type activities payables are 58 percent vendors, 5 percent accrued interest and 37 percent customer deposits.

E. Interfund receivables, payables and transfers

The Village reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

<u>Receivable Fund</u>	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>	<u>Internal Service</u>	<u>Total</u>
General	\$ 42,290	\$ 10,369	\$ 6,300	\$ 32,979	\$ 91,938
Major Street	-	-	-	35,651	35,651
Local Street	-	-	-	36,193	36,193
Revolving Loan	28,149	-	-	-	28,149
Electric	-	-	-	127,497	127,497
Sewer	472	-	-	23,921	24,393
Water	3,741	-	-	23,223	26,964
	<u>\$ 74,652</u>	<u>\$ 10,369</u>	<u>\$ 6,300</u>	<u>\$ 279,464</u>	<u>\$ 370,785</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

F. Investment in Michigan South Central Power Agency

The Michigan South Central Power Agency (M.S.C.P.A) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	<u>Percent of Ownership</u>
City of Coldwater	40.0%
City of Hillsdale	25.5
City of Marshall	24.0
Village of Clinton	6.5
Village of Union City	<u>4.0</u>
	<u>100.0%</u>

The Village of Union City is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2007, audited by other auditors whose report dated August 30, 2007, expressed an unqualified opinion for those statements.

The Village has entered into a Power Sales Contract with M.S.C.P.A. which requires the Village to purchase all of its bulk power supply from M.S.C.P.A and to pay its share of the agency's operating and debt service costs. The Village has also entered into an agreement for services to be provided by M.S.C.P.A. in respect to substation facilities and an agreement which requires the Village to sell to the agency power generated by its facilities in certain instances.

Summary information of the Village's investment in the M.S.C.P.A. as of and for the year ended June 30, 2007, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Village of Union City Portion 4.0%</u>
Total Assets	\$ 74,707,008	\$ 2,988,280
Total Liabilities	<u>(51,190,783)</u>	<u>(2,047,631)</u>
Net Assets	<u>\$ 23,516,225</u>	<u>\$ 940,649</u>

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

	<u>Total M.S.C.P.A.</u>	<u>Village of Union City Portion 4.0%</u>
Operating revenues	\$ 42,858,324	\$ 1,714,333
Operating expenses	<u>(35,532,861)</u>	<u>(1,421,314)</u>
Operating income	7,325,463	293,019
Other income and (expense)	<u>(1,314,005)</u>	<u>(52,561)</u>
Changes in net assets	6,011,458	240,458
Net Assets at Beginning of Year	<u>17,504,767</u>	<u>700,191</u>
Net Assets	<u>\$ 23,516,225</u>	<u>\$ 940,649</u>

G. Long-term debt

Revenue bonds. The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
1995 Water	2014	4.75%-6.10%	\$ 305,000
1995 Sewer	2034	4.5%	<u>2,181,000</u>
			<u>\$ 2,486,000</u>

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

Revenue bond debt service requirements to maturity are as follows:

	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 35,000	\$ 17,171	\$ 45,000	\$ 99,270	\$ 80,000	\$ 116,441
2010	40,000	14,985	50,000	96,345	90,000	111,330
2011	40,000	12,636	50,000	96,208	90,000	108,844
2012	40,000	10,265	50,000	92,070	90,000	102,335
2012	50,000	7,574	55,000	88,920	105,000	96,494
2014-2018	100,000	6,088	320,000	397,532	420,000	403,620
2019-2023	-	-	385,000	315,000	385,000	315,000
2024-2028	-	-	485,000	211,000	485,000	211,000
2029-2033	-	-	615,000	78,000	615,000	78,000
2034	-	-	126,000	4,000	126,000	4,000
	\$ 305,000	\$ 68,719	\$ 2,181,000	\$ 1,478,345	\$ 2,486,000	\$ 1,547,064

Changes in Long-Term Debt. Long-term liability activity for the year ended March 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Government activities					
Compensated absences	\$ 56,619	\$10,771	\$ -	\$ 67,390	\$ 67,390
Business-type activities					
Sewer Revenue bonds	\$ 2,226,000	\$ -	\$ (45,000)	\$ 2,181,000	\$ 45,000
Water Revenue bonds	335,000	-	(30,000)	305,000	35,000
Compensated absences	78,801	10,625	-	89,426	25,097
	\$ 2,639,801	\$ 10,625	\$ (75,000)	\$ 2,575,426	\$ 105,097

For the governmental activities, compensated absences are generally liquidated by the general fund.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

H. Segment information--enterprise funds

The government issued revenue bonds to finance certain improvements to its water and sewer distribution and treatment systems. Because the Electric, Sewer and Water Funds, which are individual funds that account entirely for the government's electric services, water distribution and treatment and sewage disposal and treatment activities, are segments and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

I. Pension plan

The Village maintains a defined contribution pension plan called the Village of Union City Public Employees' Retirement Trust, which is administered by two public retirement plan administrators for substantially all employees. The employees must have attained 21 years of age and completed one year of service to become a participant in the plan. An employee is fully vested after six years of service. No employee contributions are required or can be made to the plan. The Village Council is authorized to amend benefit provisions and contribution requirements.

The Village is required to make annual contributions to the Village Employee's Pension Trust based on the percentage within the employee group's contracts.

Contributions made to the plan for the year ended March 31, 2008, amounted to \$38,423. The following is a schedule of the contributions by fund:

General Fund	\$ 13,047
Major Street Fund	2,399
Local Street Fund	2,399
Electric Fund	12,646
Sewer Fund	3,966
Water Fund	<u>3,966</u>
Total	<u>\$ 38,423</u>

IV. OTHER INFORMATION

A. Risk management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2008, the Village carried commercial insurance to cover all risks of losses. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

VILLAGE OF UNION CITY, MICHIGAN

Notes to the Financial Statements

B. Property taxes

The Village property tax is levied each July 1 on the assessed valuation of property located in the Village as of the preceding December 31, the lien date. Real and personal property in the Village for the 2007 levy had a taxable value of \$23,389,774 representing approximately 50 percent of the estimated true cash value, as assessed by the County. The Village's general operating tax rate for fiscal year 2007-08 was 9.9972 mills and 3.9897 mills for the Village Roads.

C. Commitments and contingencies

The Village participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits. Accordingly, the Village's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Village expects such amounts, if any, to be immaterial.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 23, 2008

Village Council
Village of Union City
Union City, Michigan

We have audited the financial statements of the governmental activities, business activities, each major fund, and the aggregate remaining fund information of the Village of Union City, as of and for the year ended March 31, 2008, and have issued our report thereon dated September 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Union City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the following paragraphs to be significant deficiencies in internal control over financial reporting.

Significant Deficiencies

2008-1 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Village's assets.

Condition: The Village of Union City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting functions.

Effect: Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the asset resulting from the transaction.

Recommendation:

We recommend the Village develop internal control procedures to strengthen its internal control by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

View of responsible

Official: The client strives to have as much separation of duties as possible in a small office. Periodically, the Village does a cost benefit analysis of providing another person to increase the separation of duties, and currently believes it is not cost effective at this time to add additional personnel in light of flat revenue sources.

2008-2 – Preparation of Financial Statements in Accordance with GAAP

Criteria: The preparation of financial statements in accordance with GAAP is the responsibility of the Village's management and requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Village's internal controls.

Cause: This condition was caused by management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

Effect: As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of Responsible
Officials:**

The Village has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Village to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-3 - Payroll (repeat comment)

Condition: During our audit we considered the internal controls relating to payroll. We noted that there is no independent review of the payroll register for each pay period.

Effect: This condition increases the risk that payroll checks could be issued for the improper amounts to individuals and issued to non-existent employees.

Cause: This condition is due to a small office staff, with little opportunity to achieve adequate separation of duties.

Recommendation:

We recommend the Village implement a procedure requiring someone other than the preparer to review each payroll register for reasonableness, and to initial and date the payroll register as documentation that the step has been completed.

**View of Responsible
Officials:**

The Village will explore ways to implement this recommendation in the coming year.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of the Village of Union City in a separate letter dated September 23, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Village of Union City's responses to the findings identified in our audit are described above. We did not audit the Village's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Village Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohsen". The signature is written in a cursive style with a large, looped 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
UNDER SAS NO. 114**

September 23, 2008

To the Village Council
Village of Union City

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of ***Village of Union City*** for the year ended March 31, 2008, and have issued our report thereon dated September 23, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated July 22, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of ***Village of Union City***. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ***Village of Union City's*** compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing communicated to you during various discussions throughout the audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by ***Village of Union City*** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village Council and management of the ***Village of Union City*** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

Village of Union City

Comments and Recommendations

For the Year Ended March 31, 2008

In planning and performing our audit of the financial statements of Village of Union City as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in which are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matter

Documenting Review and Approval of Bank Reconciliations

Effective internal control procedures should provide a clear evidence trail of who performed what procedure and when. The Village is diligent in completing its bank reconciliations on a timely basis; however, there is no indication of an independent review of the bank reconciliations by someone other than the preparer. We recommend that an independent review of each monthly bank reconciliation be completed, and initialed and dated by the reviewer, in order to provide documentation that this procedure was done, and in order to provide a complete audit trail.

* * * * *